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SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
AUGUST 1, 1978

1. ASEAN PREPARATIONS (LIMITED OFFICIAL USE)

A. PREPARATIONS ARE ON SCHEDULE. MRS. MANALO AGREES TO THE PROPOSED AGENDA AND SCHEDULE. ASEAN CORE GROUP FOR THE CALL ON PRESIDENT CARTER AND THE BLUMENTHAL LUNCHEON HAVE BEEN EXPANDED FROM 16 TO 19, WHICH INCLUDES 13 MINISTERS AND THE FIVE WASHINGTON AMBASSADORS. THREE MINISTERS, MRS. IMELDA MARCOS AND THE TWO THAI DEPUTY MINISTERS ARE ADDED. MRS. MARCOS IS ADDED TO THE PHILIPPINE DELEGATION IN HER CAPACITY AS MINISTER OF ECOLOGY AND HUMAN SETTELEMTNS, NOT AS FIRST LADY. ASEAN ALSO WANTED THE NUMBER OF INVITEES TO THE CONGRESSIONAL MEETING EXPANDED TO 29. THE SENATE WANTS TO LIMIT IT TO CONFIDENTIAL

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19 AND THE HOUSE HAS NOT DECIDED YET BUT WILL PROBABLY BALK AT 29. THE MAJOR OUTSTANDING MATTER ON ARRANGEMENTS CONCERNS THE PRESS CONFERENCE AND THE PERIOD AFTER IT. ALL ASEAN HEADS OF DELEGATION WILL ATTEND THE PRESS CONFERENCE AND MAY NOT RETURN TO THE MEETING. PROVIDING SECRETARY BLUMENTHAL REMAINS IN THE CHAIR, ASEAN HAS AGREED THAT THE OTHER MINISTERS WILL REMAIN AT THE MEETING.

HOWEVER, BLUMENTHAL WILL HAVE TO LEAVE AT 4:00.

DICK COOPER IS PREPARED TO MEET WITH A SMALL GROUP OF ASEAN ECONOMIC/FINANCE MINISTERS TO DISCUSS IN DETAIL N/S ISSUES. WE HAVE, HOWEVER, NOT YET WORKED OUT THE TIME FOR SUCH A MEETING. ASEAN HAS PROPOSED THE LATE AFTERNOON ON AUGUST 4.

BASED ON THE SIX MEMORANDA SUBMITTED BY ASEAN, WHICH REPEAT MOST OF THE DEMANDS PRESENTED AT MANILA BUT IN A MORE INSISTENT TONE, WE MAY HAVE PROBLEMS WITH ASEAN'S VERSION OF THE JOINT PRESS STATEMENT, PARTICULARLY REGARDING COMMODITIES, GSP AND N/S ISSUES. WE HOPE TO BE ABLE TO WORK OUT SATISFACTORY WORDING WITH MRS. MANALO BEFORE THE CONFERENCE, BUT SOME DIFFERENCES WILL HAVE TO BE WORKED OUT BY THE DRAFTING COMMITTEE. THE US COMMITTEE PARTICIPANTS WILL BE ERLAND, CHAIRMAN; HORMATS, EB; PELIKAN, TREASURY; SMITH, COMMERCE; AND PETREQUIN, AID.

B. ASEAN SIX MEMORANDA: IN SETTING FORTH ITS POSITIONS PRIOR TO THE MEETING, ASEAN REITERATES MANY OF THE SAME POSITIONS AS ITS 11 MEMORANDA FOR THE MANILA MEETING AND ADHERES GENERALLY TO G-77 POSITIONS. THESE MEMORANDA, HOWEVER, FOCUS ON COMMODITY, TRADE AND INVESTMENT ISSUES
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AND IN SOME CASES TEND TO BE MORE ACCUSATORY AND SHARPER IN TONE THAN PREVIOUSLY, PARTICULARLY REGARDING RESUMPTION OF COMMON FUND NEGOTIATIONS, TIN PRICE NEGOTIATIONS, AND VEGETABLE OIL AND COPPER DISCUSSIONS. ASEAN AGAIN ASKS FOR STABEX. ASEAN CONSIDERS THE BONN SUMMIT RESULTS TO BE BENEFICIAL AND BALANCED, BUT BELIEVES THE BIG THREE MTN PACKAGE FALLS FAR SHORT OF EXPECTATIONS AND CALLS FOR MORE FAVORABLE TREATMENT OF THE LDCS, INCLUDING APPLYING SELECTIVE AND DIFFERENTIAL (S&D) TREATMENT TO MOST CODES AND THE US IMPLEMENTING ITS TROPICAL PRODUCTS OFFER. IN OTHER PAPERS ASEAN CALLS FOR POSITIVE MEASURES TO PROMOTE FOREIGN INVESTMENT, BROADENING GSP AND MAKING IT PERMANENT, AND APPLYING S&D TREATMENT TO COUNTERVAILING DUTIES AND QUOTAS FOR TEXTILES. DESPITE THE BROAD BRUSH TREATMENT OF MANY ISSUES, THE ASEAN MEMORANDA REPRESENT A SYSTEMATIC, COORDINATED EFFORT WHICH WARRANTS A SERIOUS RESPONSE. WE PLAN TO REPLY IN KIND AND TO USE THE DIALOGUE AS AN EXTENSION OF NORTH/SOUTH ISSUES IN OTHER FORA.

C. USG PARTICIPATION: NOW THAT VICE PRESIDENT MONDALE HAS AGREED TO ATTEND THE CONCLUDING ASEAN DINNER AND SECRETARY VANCE WILL PARTICIPATE IN THE PRESS CONFERENCE,

USG PARTICIPATION SEEMS WELL IN HAND. MRS. MANALO REACTED POSITIVELY TO THESE DEVELOPMENTS. SECRETARY BLUMENTHAL HAS DECIDED TO INVITE ALL RANKING ASEAN DELEGATES TO HIS FRIDAY LUNCH; INVITATIONS HAVE GONE

OUT TO ALL DELEGATES FOR THE LUNCH AND THE SECRETARY'S DINNER. ABOUT 50 PRESS PEOPLE TURNED OUT FOR DICK HOLBROOKE'S BACKGROUNDER; WE EXPECT A NUMBER OF STORIES TO BUILD ON THE ARTICLE IN MONDAY'S WASHINGTON POST.

D. CHAMBER OF COMMERCE RECEPTION: OAKLEY JOHNSON REPORTS THAT ACCEPTANCES FROM THE BUSINESS COMMUNITY ARE BETTER THAN EXPECTED, OVER A HUNDRED PERSONS. AT A BRIEFING ON ASEAN FOR THE CHAMBER'S BUSINESS INVITEES
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BEFORE THE RECEPTION, ERLAND HEGINBOTHAM, LEADING A USG TEAM, WILL COVER US-ASEAN RELATIONS AND THE MINISTERIAL; A GROUP REPRESENTING APCAC WILL TALK ON BUSINESS OPPORTUNITIES AND PROBLEMS FROM THEIR VIEWPOINT; AND REPRESENTATIVES FROM THE AMERICAN-ASEAN TRADE COUNCIL IN NEW YORK WILL GIVE THEIR PERSPECTIVE. THE LATTER GROUP HAS BEEN ACTIVELY ATTEMPTING TO ESTABLISH DIRECT LINKS WITH THE ASEAN BUSINESS COMMUNITY; WE HOPE THE BRIEFING WILL HELP TO COORDINATE THE ACTIVITIES OF THE VARIOUS GROUPS.

E. APCAC REPRESENTATIVES IN TOWN FOR THE MINISTERIAL HAVE REQUESTED A MEETING WITH USG OFFICIALS, WHICH WILL BE HELD 2:30-3:45 WEDNESDAY, JUST BEFORE THE ABOVE BRIEFING. ERLAND WILL LEAD THE USG PARTICIPANTS.

F. NEW YORK PROGRAM, AUGUST 8: THE PROGRAM, HOSTED BY THE ASIA SOCIETY, THE FAR EAST-AMERICA COUNCIL, AND THE AMERICAN-ASEAN TRADE COUNCIL, NOW CONSISTS OF A LUNCHEON, AN ADDRESS BY WIDJOJO, A QUESTION AND ANSWER PERIOD, RUNNING FROM NOON TO 3:00 PM. FOUR PEOPLE FROM EACH ASEAN DELEGATION WILL ATTEND, WITH WIDJOJO, PRAWIRO, PATERNO AND WALDEPENAS THE RANKING ASEAN PARTICIPANTS. TONY ALBRECHT AND OFFICIALS FROM SEVERAL OTHER AGENCIES WILL ALSO ATTEND.

2. ASSESSMENT OF BONN SUMMIT (CONFIDENTIAL)

US PARTICIPANTS IN THE SUMMIT SAY RESULTS WERE BETTER THAN EXPECTED BECAUSE THE PRESIDENT LED OFF WITH HIS ENERGY PLANS AND THE FRG AND JAPAN FOLLOWED UP WITH SPECIFIC ECONOMIC POLICY COMMITMENTS. THE CANADIANS TOOK THE LEAD ON COOPERATION WITH THE LDCS ON ENERGY
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AND A GROUP WILL WORK WITH THE IBRD AND OTHERS TO PROMOTE ENERGY DEVELOPMENT AND EXPLORATION. THE COORDINATED INITIATIVE TO CHECK TERRORISM ON AIRCRAFTS

WAS SPONTANEOUS AND REFLECTED THE PRINCIPALS' WILLINGNESS TO MAKE JOINT POLITICAL DECISIONS WITHOUT PRIOR STAFF PREPARATION. MTN DISCUSSIONS WERE DIFFICULT, PARTICULARLY FOR FUKUDA; GISCARD DISAGREED WITH THE EC COMPROMISE ON AGRICULTURE; AFTER INTENSE PRESSURE, FRANCE WOULD ONLY AGREE TO WELCOME THE BIG THREE'S MTN STATEMENT. MUCH MORE MTN NEGOTIATING REMAINS. THE JAPANESE WERE MUCH MORE ASSERTIVE THAN IN THE PAST; FUKUDA TOOK THE LEAD ON SEVERAL ISSUES, BUT HIS LEADERSHIP WAS NOT ALWAYS CONSTRUCTIVE FROM OUR POINT OF VIEW. FUKUDA, FOR EXAMPLE, SAID THE DEPRECIATION OF THE DOLLAR MADE IT DIFFICULT TO ACHIEVE THE 7 PERCENT GROWTH TARGET FOR JFY 1978. THE PRESIDENT REPLIED THAT DOLLAR DEPRECIATION IN PART WAS CAUSED BY THE JAPANESE AND OTHER SHORTFALLS IN GROWTH TARGETS. JAPAN ALSO EMPHASIZED ITS TIES WITH ASEAN IN DISCUSSING VARIOUS ISSUES. EMBASSY TOKYO REPORTS FUKUDA WAS VERY PLEASED WITH THE SUMMIT AND THE GOJ THOUGHT EVERYONE RECOGNIZED HIS OWN POINTS OF VULNERABILITY. THE FINAL JUDGMENT, HOWEVER, WOULD DEPEND ON IMPLEMENTATION. THE GOJ, FOR ITS PART, IS INTENSIVELY REVIEWING ITS DOMESTIC ECONOMIC SITUATION, INCLUDING ADDITIONAL STIMULUS MEASURES.

3. ADB PROCUREMENT (LIMITED OFFICIAL USE)

A. PROCUREMENT DATA: STAFF ASSESSMENT INDICATES THAT US FIRMS WERE AWARDED CONTRACTS ON 34 PERCENT OF THE BIDS FOR WHICH THEY COMPETED. THIS FIGURE IS MUCH HIGHER THAN EXPECTED. HOWEVER, US FIRMS ONLY BID ON 21 PERCENT OF THE CONTRACTS FOR WHICH THERE WAS COMPETITIVE BIDDING. THUS, THE KEY TO POOR US PROCUREMENT PERFORMANCE SEEMS TO BE US FIRMS' LACK OF INTEREST IN BIDDING. US FIRMS
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WERE MOST SUCCESSFUL IN WINNING BIDS FOR POWER (37 PERCENT SUCCESS RATE), HIGHWAY/AIRPORTS (23 PERCENT), IRRIGATION AND INDUSTRY/EDUCATION PROJECTS. HOWEVER, AS THE BANK TURNS TO BASIC HUMAN NEEDS TYPE PROJECTS, THE NUMBER OF THESE TYPES OF PROJECTS IS DECLINING. POOREST PERFORMANCE WAS IN AGRICULTURE (EXCLUDING IRRIGATION), FISHERIES AND PORTS/RAILROADS. IN ADDITION, IN 28 PERCENT OF THE TENDERS ON WHICH US FIRMS BID, THE BIDS WERE REJECTED FOR LACK OF RESPONSIVENESS TO THE TENDER OFFERINGS OR FOR OTHER REASONS. REGARDING UNSUCCESSFUL BIDS, ABOUT ONE-FIFTH OF US BIDS WERE AT LEAST 25 PERCENT ABOVE THE AWARD PRICE. THESE DATA ARE BASED ON 1,523 CONTRACTS FOR GOODS AND SERVICES AND CONSULTANTS AWARDED SINCE 1969 ON THE BASIS OF COMPETITIVE INTERNATIONAL BIDDING.

B. INTERAGENCY ACTION PROGRAM: AN INTERAGENCY WORKING GROUP REVIEWED THE EXCELLENT EMBASSY/USADB ASSESSMENTS

AND RECOMMENDATIONS ON ADB PROCUREMENT AND DEVELOPED A SERIES OF SUGGESTED ACTIONS. THESE ACTIONS ARE BEING SUBMITTED TO PRINCIPALS AND ERLAND WILL CALL A POLICY LEVEL MEETING TO REVIEW THESE PROPOSALS. IN THE INTERIM, THE GROUP IS CONTACTING VARIOUS BUSINESS ASSOCIATIONS TO ASK FOR THEIR ASSESSMENTS AND FOR WAYS TO INCREASE US INTEREST IN BANK-FINANCED PROCUREMENT. FOR EXAMPLE, A QUESTIONNAIRE IS GOING OUT TO MEMBERS OF THE AMERICAN COUNCIL OF CONSULTING ENGINEERS. WE ALSO PLAN TO REVIEW OUR TENTATIVE SUGGESTIONS WITH AMBASSADOR EDMOND AND ARE EXPLORING THE POSSIBILITY OF TONY GEBER HEADING UP AN ASSESSMENT OF 10-15 ADB CONTRACTS TO DETERMINE HOW US FIRMS COULD BE MORE EFFECTIVE IN THEIR BIDS. HOWEVER, IT IS BECOMING APPARENT THAT OUR MAIN FOCUS SHOULD BE IN WAYS TO STIMULATE US BUSINESS

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INTEREST.

4. ASIAN DEVELOPMENT FUND (ADF) LENDING CRITERIA (CONFIDENTIAL)

ADB MANAGEMENT HAS PROPOSED REVISING ELIGIBILITY CRITERIA FOR SOFT LOANS DURING THE 1978-1982 PERIOD BY ESTABLISHING THREE GROUPS OF DEVELOPING MEMBER COUNTRIES (DMCS). A) FULLY ELIGIBLE COUNTRIES WOULD HAVE A PER CAPITA GNP OF 200 DOLLARS OR BELOW AS WELL AS LIMITED DEBT-REPAYMENT CAPACITIES. EA COUNTRIES ARE INDOCHINA, BURMA, COOK, GILBERT AND SOLOMON ISLANDS, TONGA AND WESTERN SAMOA. PAKISTAN WOULD CONTINUE TO RECEIVE BLENDED LOANS. B) INTERMEDIATE DMCS WOULD RECEIVE MODEST AMOUNTS OF ADF LENDING COMBINED WITH ORDINARY CAPITAL LOANS; THESE ARE INDONESIA, PHILIPPINES, THAILAND AND PAPUA NEW GUINEA. C) THE ADVANCED DMCS WOULD BE INELIGIBLE. THESE CATEGORIES ARE CONSISTENT WITH US SUGGESTIONS. MANAGEMENT ESTIMATES THAT CATEGORY B COUNTRIES WOULD LIKELY RECEIVE UP TO 15 PERCENT OF TOTAL ADF LENDING IN 1978-1982 WHICH WOULD AMOUNT TO AS MUCH AS 375 MILLION IN THE LATTER THREE YEARS. THE ECONOMIC SITUATION OF EACH GROUP B DMC WOULD BE TAKEN INTO ACCOUNT; THIS MEANS INDONESIA WOULD RECEIVE AS MUCH AS HALF OF THIS AMOUNT. BOARD APPROVAL WOULD REPRESENT SIGNIFICANT ADDITIONAL CONCESSIONAL AID FOR ASEAN COUNTRIES. WE HAVE BEEN ENCOURAGING THE BANK TO RESUME BLENDED LOANS TO THE THREE ASEAN COUNTRIES WHICH HAVE RECEIVED NO SOFT FUNDS SINCE 1974.

5. PBEC NATIONAL MEETING IN WASHINGTON (UNCLASSIFIED)

HOOT GIBSON, WHO HANDLES EXECUTIVE ARRANGEMENTS FOR THE PACIFIC BASIN ECONOMIC COUNCIL, CALLED US TO SAY THAT PBEC WOULD LIKE TO INVITE UNDER SECRETARY COOPER AND

ASSISTANT SECRETARY HOLBROOKE AGAIN TO SPEAK TO THE PBEC
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ANNUAL MEETING IN WASHINGTON ON NOVEMBER 2. PBEC WILL
EXTEND THESE INVITATIONS BY LETTER SHORTLY. PBEC ALSO
PLANS TO INVITE SECRETARY BLUMENTHAL, FRANK WEIL AND
SEVERAL KEY CONGRESSMEN. GIBSON WILL ALSO INVITE EA
COUNTRY DIRECTORS TO ATTEND AND PARTICIPATE AS APPROPRIATE.
THE THEME OF THE MEETING WILL BE PBEC'S NEWLY ADOPTED
CODE OF CONDUCT FOR FOREIGN FIRMS OPERATING IN THE
PACIFIC BASIN. PBEC WILL ALSO INVITE DEPUTY SECRETARY
CHRISTOPHER TO SPEAK TO ITS INTERNATIONAL MEETING IN
LOS ANGELES NEXT MAY. GIBSON ALSO PLANS TO EXPLORE
ORGANIZING A SPECIAL MEETING OF THE PBEC EXECUTIVE COUNCIL
WITH DEPARTMENT OFFICIALS, PERHAPS DURING THE NOVEMBER
MEETING.

6. STEEL (LIMITED OFFICIAL USE)

THE OECD AD HOC STEEL GROUP MET ON JULY 26-27 IN PARIS
TO DISCUSS A DRAFT RESOLUTION ON STEEL WHICH WOULD SET
UP A FORMAL STEEL COMMITTEE. THE GROUP REACHED A
CONSENSUS THAT A LIMITED NUMBER OF NON-OECD COUNTRIES
(PRESUMABLY INCLUDING KOREA) WOULD BE INVITED TO JOIN
THE COMMITTEE. ALSO, THE EC MADE IT CLEAR THAT THERE
COULD BE NO COMMITTEE ESTABLISHED UNTIL OUTSTANDING US
ANTIDUMPING CASES ARE RESOLVED.

A NUMBER OF PARTS OF THE DRAFT REMAIN BRACKETED AND
THE DELEGATES WILL BE MEETING AGAIN IN SEPTEMBER TO
FURTHER DISCUSS AND POSSIBLY AGREE ON A RESOLUTION.

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